

# Financial problem

Finance



of project: Managing Financial Resources and Decisions and number:  
submitted: Task 1

### Task One Part A

a) Identify and describe at least six sources of finance that are available to C and C Hydraulics Ltd. (A. C 1. 1)

b) Assess the implications of the chosen source of finance on the legal status; dilution of control; and tax effects of C and C Hydraulics Ltd. (A. C 1. 2)

c) From the sources of Finance mentioned in 1. 1, evaluate giving reasons the most appropriate source of finance for C and C Hydraulics Ltd. (A. C 1. 3)

a) And b)

### Increasing Share Capital

The most reliable and worthy option available at the discretion of C and C Hydraulics to meet their fund or finance requirement is by inviting the money from the general public by way of issuing of further share capital into the stock market of the country. On the other hand, if it is not a public listed Company then C and C hydraulics may decide to opt for IPO (Initial Public Offering) option to raise the capital in order to meet their fund requirements for the Company expansion into new sectors. This is the most effective mean to generate finance and it does not possess any extra cost.

The mere affect of issuing share capital to general public would be fruitful as it solidifies the legal position of the Company by giving it the status of listed Company, if it chooses this option of finance. Furthermore, the dilution of control of the business would be shared as a result of share issuance to the general public who now become the owner of the Company. With respect to tax effects, the company would be more transparent as now it would directly

come under the control of regulatory bodies of the country. However, as a listed Company, now the tax effects would be more on the Company's part

### Long term Loans

Another option available to meet the Company's financial needs for business expansions is to acquire a long term loans from any banking or financial institutional channels. As, the company credit standing and financial position is quite strong enough to acknowledge the timely repayment of the loan principal and interest cost, thus, SMT could easily negotiate a loan and its terms from any well reputed financial institutions or banking channels.

The legal status of the Company would not be affected as such due to such long term loans as these loans are meant to repay in the upcoming times. Moreover, the dilution of control would not be affected on account of these long term loan because of the same reason and lastly, the tax effects would be reduced on the part of Company as usually the tax authorities allows the interest cost as admissible expense in the tax income calculation.

### Disposal of any unused asset of a business

This option might result in huge cash inflows to C and C hydraulic, if considered to take into action. However, the disposal of any of its non profitable or loss incurring business assets would inject some of the cash flows towards the Company, which then strategically utilized to meet business expansion and growth requirements of the Company in an effective and efficient manner.

There would be no possible implications on legal status and dilution of control on the company's position, however, as a result of disposal of some unused asset of the Company might give effect to one off income incidents for the Company and therefore, such income would probably fall under the

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tax net and thus, tax would have to be paid on it.

### Crowd Funding

Crowd funding is another option for the organization, which allow the raising of funds or capital by using various online and active social media channels or networks to gather a huge number of people which can contribute finance towards the organization for any particular project financing and setting up and that all is done by those peoples in exchange for a consideration involving goods, services or share in the equity instrument of the Company. But, Crowd funding would be effective for IFM Plc if they have some strong and established business and social networks and contacts and those channels wanted to build further loyalty and trust in favor of the business (Business. vic. gov. au, 2014).

The possible legal status of the Company would not be affected as such because the Company's is not offering joint control or interest as a result of crowd funding. On the hand, the implications of dilution of control would be affected as a matter of fact, because the network or channels through which fund is raised might exert some of the control on the management of the Company. Lastly, C and C hydraulics would have to pay taxes on such mode of financing as injected by the funding of crowds of networks.

### Joint Venture Contract

Another vital and reliable option for raising finance for the business expansion of the Company into new market sectors is to sign or enter into a joint venture relationship with some other financial sound and competent organization. But the C and C hydraulics should make sure before signing the contract that, the existing business of such potential joint venture partner should prove to be a source of assistance and synergy for their business

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operations.

As a result of Joint venture contract the overall legal status of the Company would be changed as now the company would be under the control of two separate owners mutually. On the other hand, dilution of control would also be affected due to the same reason. However, the tax impact could be favorable or unfavorable on the part of C and C hydraulics deepening on the tax position of the concerned joint venture with which it forms a joint venture contract.

Issuance of Debt instrument into the general public

Issuance of debt instrument into public represents a source of loan that the company usually takes or obtains from the general public by way of issuing certain debt instruments to them, like bonds and debentures. Therefore, this is the source of finance available to C and C hydraulics.

As far as legal status and dilution of control is concerned, there will be no implications as such on the Company if it adopts for this mode of financing. Moreover, the tax effect would be reduced to some extent as the interest paid on such debt instruments are deducted from the taxable income in reaching the actual figure of tax expense.

C)

According to the given sources of finance, the best choice to adopt for C and C hydraulics is increasing their existing share capital or issuing the IPO in favor of the Public at large. This choice would be beneficial for the Company because as it contains only minimal cost for issuance and does not contains any interest cost element attached in it. Further, the Company would not be bound to pay any dividends or other cash entitlements to its shareholders until few years time, therefore much of the cash flows can be reinvested for

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the business expansion and development by C and C Hydraulics.

#### Task One Part B

a) Analyze the cost of using i) Debt or ii) Equity to finance the expansion and advise C and C Hydraulics Ltd. on the advantages of using either debt or equity to finance (A. C 2. 1)

b) Explain the importance of Financial Planning to Ian and Lorraine Couch. (A. C 2. 2)

c) Identify the different decision makers (stakeholders) for C and C Hydraulics Ltd. and assess their different information needs. (A. C 2. 3)

d) Explain the impact of finance such as long-term loan, equity shares, finance and operating leases on a business's financial statements.

a)

The cost of debt represents the interest cost to be paid over and above the amount of principal acquired by C and C hydraulic, whereas the cost of using the equity constitutes the payment of dividend, bonus shares, right shares or other entitlements to the shareholders by the Company. Therefore, such costs are to be borne by C and C hydraulics depending on the mode of finance it selects for its expansion.

The advantages of using equity is that the Company would not be bound by contract to incur any cost related to equity on monthly or yearly basis, but on the other hand it would incur such cost only when it desires to incur them towards its shareholders. However, debt financing also have their advantages, as after acquiring the debt the Company do get the access to instant finance through banking channels immediately and in huge quantum as well, as compared to the delayed procedures of raising an IPO or equity issuance to the public or other classes of persons.

b)

The Financial planning is of core importance for any business concern and its management. Therefore, its importance to Ian and Lorraine Couch would make a great deal for them. It allows you to plan your business future direction in advance by managing the limited resources availability to their maximum usage. Furthermore, it helps in managing the treasury area of the business, as in, you will be more control to your funds resources once you opt for financial planning in your business. All in all, following are some of the area which importance can be understood with the help of financial planning;

Income It helps in managing your income more effectively and efficiently

Cash flow To enhance the cash flow and manage the spending habits and costs of the business

Capital To help in building a long term premises of capital for the business and shape your overall financial future (Pppnetwork. com, 2014).

Investment It helps in highlighting good investment opportunities on pro active basis that are all relevant and advantageous to your current financial situation

Family security It provides you means for your familys financial durability and security with suitable coverage through correct kind of regulations and policies

Financial understanding It facilitates in grabbing a whole new and advance approach towards budgeting and obtains control over your current and future financial lifestyle

Savings It helped you in creating a reasonable room of financial pool to overcome your future rainy days

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Therefore, in today's world of uncertain economy, the aspects of financial planning importance would be very vital for Ian and Lorraine Couch in response to an overwhelming number of choices for handling various saving and investing issues in their Company (Letsmakeaplan. org, 2014)

c)

The following are some of the relevant stakeholders for C and C hydraulics with their information needs;

Regulators – They would be interested in proper maintained of books of accounts and financial records of the Company

Shareholders – They will be directly involved in analyzing the various financial records of the company and its future performance prospects

Creditors – They shall be interested in analyzing the current cash flows of the entity to assure them that their trade credits would be cleared in shortest time possible

Employee – The employees would be concerned in issues for Company's growth and development which directly helps them to build their career and growth prospects within an organization.

d)

Long term Loans – They are presented on the Liabilities side of the Balance Sheet and are merely represents that how much business owes to other parties as liabilities on a long term basis, i. e. over one year time period.

Equity Shares – They represents the equity side of the Company on its financial statements and represents the overall share capital of the Company that is paid up and authorized up to the date

Finance – It represents the figures of Cash and Bank Balances on the assets side of Balance sheet of the Company's that indicates current liquidity

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position of the Company

Operating Leases – It is merely a liability on the part of Company's position, which represents short term liability acquired by the Company on rent basis to hire any services from the third parties.

Task 2

- a) Prepare a monthly cash budget for the period from January to April 20X6. Your budget must clearly indicate each item of income and expenditure, and the opening and closing monthly cash balances.
- b) Discuss the factors to be considered by Ducat Ltd. when planning ways to invest any cash surplus forecast by its cash budgets. (A. C 3. 1)

a)

Please follow Exhibit 1. 1 attached in the Excel Sheet

b)

The following are the key factors that need to be considered by Ducat Ltd. for its cash surplus forecast investment;

- 1) The period for which the investment needs to be made by Ducat Ltd. would be the prime concern. As the need for cash can arise any time to meet the short run business expenses of the Company, according to the current situation of business, therefore, future occurring of unexpected event should be kept in mind by Ducat Ltd. when planning to invest any particular cash surplus in favor of its business
  - 2) The forms and quantum of returns on invest that can be earned on cash forecast should also be kept in mind by Ducat Ltd. As the basic motivation for this planning to invest cash forecasts would be to earn substantial returns on them on reasonable time in future
  - 3) Other factors that needs to be considered is the availability of option of
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urgent cash pull back from the Company's investors account, in case of any future and unexpected emergency situation faced by the Company in upcoming time span.

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